

CITY OF PAULLINA, IOWA
Paullina, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS

For the Year Ended
June 30, 2012

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CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2012)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2012
Marty Weber	Mayor Pro-Tem	January, 2014
Justin Stamer	Council Member	January, 2012
John Ihle	Council Member	January, 2012
Mike Otto	Council Member	January, 2012
John Muller	Council Member	January, 2014
Sandy Fritz	City Clerk/Administrator	January, 2012
Johnene Altman	Treasurer	January, 2012
Tisha Halverson	Attorney	January, 2012

(After January, 2012)

Name	Title	Term Expires
Mike Otto	Mayor	January, 2014
Martin Weber	Mayor Pro-Tem	January, 2014
Justin Stamer	Council Member	January, 2016
John Ihle	Council Member	January, 2016
Charles Harper	Council Member	January, 2016
John Muller	Council Member	January, 2014
Sandy Fritz	City Clerk/Administrator	January, 2013
Johnene Altman	Treasurer	January, 2013
Tisha Halverson	Attorney	January, 2013

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Paullina, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Paullina, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position (cash basis) of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2012, and the respective changes in financial position, (cash basis) for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, on our consideration of the City of Paullina, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina, Iowa's financial statements as a whole. The combining nonmajor fund financial statements,

and the schedule of receipts by source and disbursements by function, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of receipts by source and disbursements by function are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Langemy P.C.
Certified Public Accountants

Le Mars, Iowa
November 20, 2012

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011-12 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 46.6%, or approximately \$362,611 from fiscal year 2011 to fiscal 2012. Property tax increased approximately \$10,853 from fiscal year 2011 to fiscal year 2012. Local Option Sales Tax receipts decreased \$1,201 from fiscal year 2011 to fiscal year 2012. Intergovernmental receipts increased \$33,324 from fiscal year 2011 to fiscal year 2012. In addition, the City issued approximately \$369,000 worth of new debt in 2012.
- Disbursements of the City's governmental activities increased 71.8%, or approximately \$567,866 in fiscal 2012 from fiscal 2011. Public Safety increased \$106,226, Public works disbursements increased approximately \$80,923, capital projects increased \$290,821 for the Sewer Rehabilitation Project.
- The City's total cash basis net assets decreased 1.4% or \$35,422 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased \$26,244 and the assets of the business type activities decreased by \$9,178.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – cash basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets presents is divided into two kinds of activities:

- Government Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital outlay. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the electric system. These activities are financed primarily by user charges

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, considered to be major funds of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$26,244. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2012	2011
Receipts and Transfers		
Program Receipts:		
Charges for Services	\$ 153,970	\$ 128,470
Operating Grants & Contributions	249,681	216,357
General Receipts:		
Property Taxes	211,538	200,685
Tax Increment Financing Collections	746	15,301
Local Option Sales Tax	107,108	108,309
Interest	4,174	4,610
Miscellaneous	42,302	43,712
Proceeds from Debt Financing	369,135	55,264
Sale of Capital Assets	1,500	4,835
Total Receipts	1,140,154	777,543
Disbursements:		
Public Safety.....	355,539	249,313
Public Works.....	234,636	153,713
Health and Social Services.....	---	4,370
Culture and Recreation.....	94,287	80,889
Community and Economic Development.....	2,536	---
General Government.....	54,020	51,074
Debt Service.....	170,534	95,148
Capital Projects.....	446,575	155,754
Total Disbursements	1,358,127	790,261
(Decrease) in Cash Basis Net Assets – Before Transfers	(217,973)	(12,718)
Net Transfers	191,729	67,368
Cash Basis Net Assets – Beginning of Year	817,827	763,177
Cash Basis Net Assets – End of Year	\$ 791,583	\$ 817,827

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City's total receipts for governmental activities increased 46.6%, or approximately \$362,611. Increases incurred in the property taxes, intergovernmental and charges for services and proceeds from debt financing.

The Cities property tax rate for fiscal year 2012 was at \$9.72 versus 2011 at \$9.80. The Council continues to try to attain a lower tax rate due to several increases in the utility rates.

The cost of all governmental activities increased this year by 71.8%, to \$1,358,127 compared to \$790,261 last year. The increase in disbursements is due to the sewer rehabilitation project, increases in public safety for a fire truck purchase and in public works for street maintenance.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2012	2011
Receipts:		
Operating Receipts:		
Water	\$ 187,953	\$ 159,116
Electric	1,109,112	1,131,777
Sewer	143,529	147,813
Telecom	87,433	86,172
Interest	13,730	18,707
Proceeds from Debt	---	434,850
Total	1,541,757	1,978,435
Disbursements:		
Operating Disbursements:		
Water	171,402	209,633
Electric	923,516	1,418,690
Sewer	178,671	197,728
Telecom	85,617	88,882
Total	1,359,206	1,914,933
	182,551	63,502
Net Transfers Out	(191,729)	(67,368)
Cash Basis Net Assets – Beginning of Year	1,783,439	1,787,305
Cash Basis Net Assets – End of Year	\$ 1,774,261	\$ 1,783,439

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$3,304 to \$265,490. Water rates were increased in May of 2011.
- The Electric Fund cash balance increased by \$7,457 to \$997,246. The increase was much smaller than previous years due to a transfer out from the Electric Fund to the General Fund for the purchase of a fire truck.
- The Sewer Fund cash balance decreased by \$25,237 to \$19,385 due to a decrease in the amount of transfers in from other funds
- Telecom Fund cash balance increased by \$5,298 to \$492,140 and continues to be stable.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 21, 2012 and resulted in an increase in budgeted receipts of \$523,163 and an increase in budgeted disbursements of \$504,452. The City had sufficient cash balances to absorb these additional costs. The purchase of a new fire truck and the Sewer Rehab and Housing Rehab Projects carried over from FY 2011.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2011 to June 30, 2012 follows:

	Year Ended June 30,	
	2012	2011
General Obligation	\$ 650,000	\$ 360,000
Special Assessment Notes.....	---	10,000
Sewer Loan Notes.....	432,000	455,000
Electric Revenue Notes.....	340,000	445,000
Telecommunication Revenue Notes.....	510,000	570,020
Total	\$1,932,000	\$1,840,020

ECONOMIC FACTORS

The City continues with the replacement of aging equipment and the rising cost of health insurance.

The City continues to work with developers and to sell lots in the business park and plans to continue the development of the business park.

The City will continue to monitor and update utility rates as needed to cover the increasing costs of providing such services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

CITY OF PAULLINA, IOWA

STATEMENT OF ACTIVITIES and NET ASSETS - Cash Basis

For the Year Ended June 30, 2012

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 355,539	\$ 35,752	\$ 20,263	\$ -
Public Works	234,636	113,332	100,163	-
Culture and Recreation	94,287	2,270	6,500	-
Community and Economic Development	2,536	-	-	-
General Government	54,020	2,616	122,755	-
Capital Outlay	446,575	-	-	-
Debt Service	170,534	-	-	-
Total governmental activities	1,358,127	153,970	249,681	-
Business-Type Activities:				
Water Utility	171,402	187,953	-	-
Sewer Utility	178,671	143,529	-	-
Electric Utility	923,516	1,109,112	-	-
Telecom	85,617	87,433	-	-
Total Business-Type Activities:	1,359,206	1,528,027	-	-
Total Primary Government	\$ 2,717,333	\$ 1,681,997	\$ 249,681	\$ -

General Receipts:

Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Sale of Assets
Miscellaneous
Proceeds from Financing
Interfund Transfers
Total general receipts and transfers
Change in net assets
Cash Basis Net assets - beginning
Cash Basis Net assets - ending

Cash Basis Net Assets

Restricted:

Streets
Urban Renewal Purpose
Debt Service
Capital Projects
Employee Benefits

Unrestricted

Total Cash Basis Net Assets

Exhibit A

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (299,524)		\$ (299,524)
(21,141)		(21,141)
(85,517)		(85,517)
(2,536)		(2,536)
71,351		71,351
(446,575)		(446,575)
(170,534)		(170,534)
(954,476)		(954,476)
	\$ 16,551	16,551
	(35,142)	(35,142)
	185,596	185,596
	1,816	1,816
	168,821	168,821
(954,476)	168,821	(785,655)
211,538	-	211,538
746	-	746
107,108	-	107,108
4,174	13,730	17,904
1,500	-	1,500
42,302	-	42,302
369,135	-	369,135
191,729	(191,729)	-
928,232	(177,999)	750,233
(26,244)	(9,178)	(35,422)
817,827	1,783,439	2,601,266
\$ 791,583	\$ 1,774,261	\$ 2,565,844
\$ 150,837	\$ -	\$ 150,837
191,428	-	191,428
168,643	215,693	384,336
20,044	-	20,044
53,625	-	53,625
207,006	1,558,568	1,765,574
\$ 791,583	\$ 1,774,261	\$ 2,565,844

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
For the Year Ended June 30, 2012

	General	Special Revenue		Capital Project
		Road Use Tax	Urban Renewal Tax Increment	Business Park
Receipts:				
Taxes	\$ 200,611	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	2,616	-	-	-
Intergovernmental	26,763	100,163	-	-
Charges for Services	108,804	-	-	-
Contributions	5,000	-	-	-
TIF Revenue	-	-	746	-
Local Option Sales Tax	-	-	-	-
Rental of City Property	29,012	-	-	-
Interest on Investments	1,517	-	74	900
Miscellaneous	42,216	-	-	-
Total Receipts	416,539	100,163	820	900
Disbursements:				
Public Safety	325,532	-	-	-
Public Works	129,020	105,463	-	-
Culture and Recreation	89,587	-	-	-
Community and Economic Development	2,536	-	-	-
General Government	52,800	-	-	-
Capital Outlay	-	-	-	17,495
Debt Service:				
Principal Retirement	-	-	-	-
Interest	-	-	-	-
Total Disbursements	599,475	105,463	-	17,495
Excess (Deficiency) of Receipts to Disbursements	(182,936)	(5,300)	820	(16,595)
Other financing sources (uses):				
Proceeds from Debt Financing	-	-	-	-
Sale of Assets	1,500	-	-	-
Transfers In	208,293	-	-	-
Transfers Out	-	-	(746)	-
Total other financing sources	209,793	-	(746)	-
Net Change in Cash Balances	26,857	(5,300)	74	(16,595)
Cash Balances Beginning of Year	180,149	156,137	14,018	193,931
Cash Balances End of Year	\$ 207,006	\$ 150,837	\$ 14,092	\$ 177,336
Cash Basis Fund Balances:				
Restricted for:				
Debt Service				
Economic Development			14,092	
Streets		150,837		
Employee Benefits				
Assigned to:				
Capital Improvements				177,336
Unassigned:	207,006			
	207,006	150,837	14,092	177,336

See Accompanying Notes to Financial Statements

Exhibit B

Capital Project Sewer Rehab	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 10,927	\$ 211,538
-	960	7,578	8,538
-	-	-	2,616
59,510	-	63,245	249,681
-	-	-	108,804
-	-	-	5,000
-	-	-	746
-	-	107,108	107,108
-	-	-	29,012
199	1,148	336	4,174
-	-	86	42,302
59,709	2,108	189,280	769,519
-	-	30,007	355,539
-	-	153	234,636
-	-	4,700	94,287
-	-	-	2,536
-	-	1,220	54,020
362,835	-	66,245	446,575
63,530	90,000	-	153,530
-	17,004	-	17,004
426,365	107,004	102,325	1,358,127
(366,656)	(104,896)	86,955	(588,608)
369,135	-	-	369,135
-	-	-	1,500
-	57,517	39,632	305,442
-	-	(112,967)	(113,713)
369,135	57,517	(73,335)	562,364
2,479	(47,379)	13,620	(26,244)
724	216,022	56,846	817,827
\$ 3,203	\$ 168,643	\$ 70,466	\$ 791,583
	168,643		168,643
			14,092
			150,837
		53,625	53,625
3,203		16,841	197,380
			207,006
3,203	168,643	70,466	791,583

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
For the Year Ended June 30, 2012

	Water Utility
Operating Receipts:	
Charges for Services	\$ 187,953
Total Operating Receipts	<u>187,953</u>
Operating Disbursements:	
Purchased Power	-
Employee Services	94,650
Distribution / Collection	11,610
Supplies	28,361
Repairs	13,595
Capital Outlay	-
Administrative and General	23,186
Total Operating Disbursements	<u>171,402</u>
Excess (Deficiency) of Receipts Over Disbursements	16,551
Non-Operating Receipts (Disbursements):	
Interest Income	2,753
Interest Expense	-
Principal Payments	-
Total Non-Operating Receipts (Disbursements)	<u>2,753</u>
Excess (Deficiency) of Receipts Over Disbursements	19,304
Transfers In	-
Transfers Out	<u>(16,000)</u>
Change in Cash Balances	3,304
Cash Basis Net Assets Beginning of Year	<u>262,186</u>
Cash Basis Net Assets End of Year	<u><u>265,490</u></u>
Cash Basis Net Assets	
Restricted for Debt Service	-
Unrestricted	265,490
Total Cash Basis Net Assets	<u><u>\$ 265,490</u></u>

See Accompanying Notes to Financial Statements

Exhibit C

Business Type Activities			
Electric Utility	Sewer Utility	Telecom	Total
\$ 1,109,112	\$ 143,529	\$ 87,433	\$ 1,528,027
1,109,112	143,529	87,433	1,528,027
454,552	-	-	454,552
204,364	103,032	-	402,046
7,213	24,365	-	43,188
61,471	9,952	-	99,784
9,728	677	-	24,000
10,000	-	-	10,000
66,388	2,857	-	92,431
813,716	140,883	-	1,126,001
295,396	2,646	87,433	402,026
7,297	198	3,482	13,730
(4,800)	(14,788)	(25,617)	(45,205)
(105,000)	(23,000)	(60,000)	(188,000)
(102,503)	(37,590)	(82,135)	(219,475)
192,893	(34,944)	5,298	182,551
-	10,707		10,707
(185,436)	(1,000)		(202,436)
7,457	(25,237)	5,298	(9,178)
989,789	44,622	486,842	1,783,439
997,246	19,385	492,140	1,774,261
104,813	-	110,880	215,693
892,433	19,385	381,260	1,558,568
\$ 997,246	\$ 19,385	\$ 492,140	\$ 1,774,261

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – cash basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Business Park fund is utilized by the City to work with its developers to attract new businesses to the Paullina area and to continue to develop the City's Business Park.

The Sewer Rehab fund is utilized to account for the rehabilitation of the City Sewer.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the cable television system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2012 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30 2012; however the City's time deposits were as follows:

Certificates of Deposit	<u>\$480,900</u>
-------------------------	------------------

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2012, is \$1,870,911 of which \$650,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2012:

	Governmental Activities	Business-Type Activities
	Bonds and Notes Payable by Debt Service Fund	Bonds and Notes Paid by Enterprise Funds
Primary Government		
Bonds and notes payable July 1, 2011	\$ 370,000	\$ 1,470,000
Plus: bonds and notes issued	370,000	-
Less: payments	(90,000)	(188,000)
Bonds and notes payable June 30, 2012	<u>\$ 650,000</u>	<u>\$ 1,282,000</u>
Due within one year	<u>\$ 85,000</u>	<u>\$ 198,000</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

The City of Paullina had the following outstanding bonds as of June 30, 2012:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
General Obligation	4/4/12	.75% - 2.10%	2022	\$35,000 - \$40,000	\$ 370,000	\$ 370,000
Business Park	09/14/06	3.80 - 4.25%	2017	\$45,000 - \$60,000	515,000	280,000
Street Project	6/1/03	3.60% - 5.20%	2013	\$10,000 - \$15,000	135,000	-
S.A. Capital Loan	06/20/02	3.75% - 5.60%	2012	\$ 3,000 - \$10,000	93,000	-
Telecom	04/22/04	1.80% - 4.80%	2019	\$50,000 - \$85,000	950,000	510,000
Electric	06/15/11	1.00% - 2.10%	2016	\$105,000 - \$120,000	445,000	340,000
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	432,000
Total Bonds Due					\$ 3,028,000	\$ 1,932,000

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 35,000	\$ 6,446	\$ 50,000	\$ 11,523	\$ 85,000	\$17,969
2014	35,000	5,303	55,000	9,523	90,000	14,826
2015	35,000	5,040	55,000	7,295	90,000	12,335
2016	35,000	4,778	60,000	5,040	95,000	9,818
2017	35,000	4,305	60,000	2,550	95,000	6,855
2018 – 2022	195,000	12,233	-	-	195,000	12,233
Total	\$370,000	\$ 38,105	\$ 280,000	\$ 35,931	\$650,000	\$74,036

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Electric Revenue Capital Loan Issued 6-15-11		Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 65,000	\$ 22,778	\$110,000	\$ 5,800	\$ 23,000	\$ 12,960	\$ 198,000	\$ 41,538
2014	65,000	20,145	115,000	4,370	24,000	12,270	204,000	36,785
2015	70,000	17,415	115,000	2,415	25,000	11,550	210,000	31,380
2016	70,000	14,405	-	-	25,000	10,800	95,000	25,205
2017	75,000	11,290	-	-	26,000	10,050	101,000	21,340
2018 – 2022	165,000	11,920	-	-	144,000	37,950	309,000	49,870
2023 – 2027	-	-	-	-	165,000	15,150	165,000	15,150
Total	\$510,000	\$ 97,953	\$340,000	\$12,585	\$432,000	\$110,730	\$1,282,000	\$221,268

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrues interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

In January 2011, the City was authorized for \$597,000 of bond anticipation notes to finance the planning and repairs and maintenance to the City's sewer system. During the fiscal year \$369,135 had been received to cover the costs of initial engineering fees for the project. The sewer system update began in April 2012 with an expected completion date of August 2012 with bonds issued in the amount of \$370,000 to mature in 2022.

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

In April 2012, the City issued \$370,000 of General Obligation bonds to fund sewer system repair and maintenance. The new bond has an outstanding balance of \$370,000 as of June 30, 2012. The 2012 bond carries an average interest rate of 1.77% over ten years and matures in 2022.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2012 was \$384,169. The total City payroll for the fiscal year was \$403,685. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$32,640, \$28,048, and \$27,558, respectively, equal to the required contributions for each year.

NOTE 5 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 208,293	\$ -
Debt Service	57,517	-
Emergency	-	5,853
Employee Benefits	39,632	-
Housing Rehab CDBG	-	-
Road Use Tax	-	-
Urban Renewal – TIF	-	746
Local Option Sales Tax	-	107,114
Water	-	16,000
Electric	-	185,436
Sewer	10,707	1,000
	<u>\$ 316,149</u>	<u>\$ 316,149</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Budgeted Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts:				
Taxes	\$ 207,279	\$ 207,279	\$ 211,538	\$ 4,259
Special Assessments	11,000	11,000	8,538	(2,462)
Licenses and Permits	2,920	2,920	2,616	(304)
Intergovernmental	428,485	670,835	249,681	(421,154)
Charges for Services	1,668,337	1,673,637	1,636,831	(36,806)
TIF Revenue	765	2,765	746	(2,019)
Local Option Sales Tax	95,448	95,448	107,108	11,660
Rental of City Property	40,000	40,000	29,012	(10,988)
Interest	20,090	20,090	17,904	(2,186)
Miscellaneous	27,350	37,850	47,302	9,452
Total Receipts	2,501,674	2,761,824	2,311,276	(450,548)
Disbursements				
Public Safety	252,675	409,595	355,539	54,056
Public Works	324,143	324,143	234,636	89,507
Health and Social Services	4,370	4,370	-	4,370
Culture and Recreation	132,645	139,954	94,287	45,667
Community and Economic Development	2,000	4,000	2,536	1,464
General Government	68,881	70,381	54,020	16,361
Capital Projects	485,300	688,570	446,575	241,995
Principal Retirement	75,000	90,000	153,530	(63,530)
Interest	17,103	18,003	17,004	999
Business Type / Enterprises	1,579,235	1,599,535	1,359,206	240,329
Total Disbursements	2,941,352	3,348,551	2,717,333	631,218
Excess (deficiency) of receipts over disbursements	(439,678)	(586,727)	(406,057)	180,670
Other financing sources (uses):				
Proceeds from Debt Financing	195,830	361,590	369,135	7,545
Sale of Assets	4,000	4,000	1,500	(2,500)
Transfers In	239,382	336,635	316,149	(20,486)
Transfers (Out)	(239,382)	(336,635)	(316,149)	20,486
Total other financing sources (uses)	199,830	365,590	370,635	5,045
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(239,848)	(221,137)	(35,422)	185,715
Balances Beginning of Year	2,601,266	2,601,266	2,601,266	-
Balances End of Year	\$ 2,361,418	\$ 2,380,129	\$ 2,565,844	\$ 185,715

See accompanying independent auditor's report

**CITY OF PAULLINA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2012**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the adopted budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$407,199. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted for debt principal retirement.

CITY OF PAULLINA, IOWA
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Governmental Nonmajor Funds
For the Year Ended June 30, 2012

	Special Revenue Funds		
	Emergency	Employee Benefits	Local Option Sales Tax
Receipts:			
Taxes	\$ 5,840	\$ 5,087	\$ -
Special Assessments	-	-	-
Intergovernmental	-	-	-
Local Option Sales Tax	-	-	107,108
Interest on Investments	13	249	6
Miscellaneous	-	-	-
Total Receipts	5,853	5,336	107,114
Disbursements:			
Public Safety	-	30,007	-
Public Works	-	153	-
Culture and Recreation	-	4,700	-
General Government	-	1,220	-
Capital Outlay	-	-	-
Total Disbursements	-	36,080	-
Excess (Deficiency) of Receipts over Disbursements	5,853	(30,744)	107,114
Other financing sources (uses):			
Transfers In	-	39,632	-
Transfers Out	(5,853)	-	(107,114)
Total other financing sources	(5,853)	39,632	(107,114)
Net Change in Cash Balances	-	8,888	-
Cash Balances Beginning of Year	-	44,737	-
Cash Balances End of Year	\$ -	\$ 53,625	\$ -
Cash Basis Fund Balances:			
Restricted For:			
Employee Benefits	-	53,625	-
Assigned To:			
Capital Improvements	-	-	-
	-	53,625	-

See accompanying independent auditor's report

Schedule 1

Capital Project Funds		Total Governmental Nonmajor Funds
North Mickley Street	CDBG Housing Rehab	
\$ -	\$ -	\$ 10,927
7,578	-	7,578
-	63,245	63,245
-	-	107,108
64	4	336
-	86	86
7,642	63,335	189,280
-	-	30,007
-	-	153
-	-	4,700
-	-	1,220
-	66,245	66,245
-	66,245	102,325
7,642	(2,910)	86,955
-	-	39,632
-	-	(112,967)
-	-	(73,335)
7,642	(2,910)	13,620
9,102	3,007	56,846
\$ 16,744	\$ 97	\$ 70,466
-	-	53,625
16,744	97	16,841
16,744	97	70,466

See accompanying independent auditor's report

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2012

Schedule 2

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 219,116	\$ 200,685	\$ 183,904	\$ 226,651
Tax increment financing revenue	746	15,301	19,298	20,811
Local Option Sales Tax	107,108	108,309	78,061	127,387
Licenses and permits	2,616	2,873	2,915	2,300
Use of money and property	33,186	25,718	51,543	43,765
Intergovernmental	249,681	216,357	222,704	106,383
Charges for service	108,804	94,379	104,812	106,737
Special Assessments	960	10,110	20,143	23,977
Miscellaneous	47,302	43,712	40,299	103,240
Proceeds from Debt Financing	369,135	55,264	-	-
Sale of Capital Assets	1,500	4,835	9,000	835
Total	<u>1,140,154</u>	<u>777,543</u>	<u>732,679</u>	<u>762,086</u>
Disbursements:				
Operating:				
Public safety	355,539	249,313	223,141	288,822
Public works	234,636	153,713	425,123	256,664
Health and Social Services	-	4,370	8,570	4,150
Culture and recreation	94,287	80,889	84,601	84,288
Community and economic development	2,536	-	113	1,993
General government	54,020	51,074	66,382	63,631
Debt service	170,534	95,148	135,345	140,150
Capital projects	446,575	155,754	71,458	7,811
Total	<u>\$ 1,358,127</u>	<u>\$ 790,261</u>	<u>\$ 1,014,733</u>	<u>\$ 847,509</u>

See accompanying independent auditor's report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council
City of Paullina, State Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paullina, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City of Paullina, Iowa's basic financial statements and have issued our report thereon dated November 20, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Paullina, Iowa, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Paullina, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Paullina, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as II-A-12 and II-B-12 to be material weaknesses.

Compliance and Other Matters

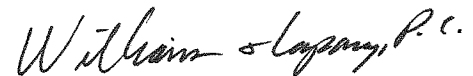
As part of obtaining reasonable assurance about whether City of Paullina, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Paullina's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Paullina's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Paullina and other parties to whom the City of Paullina may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Paullina, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Certified Public Accountants

Le Mars, Iowa
November 20, 2012

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Part I – Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

II-A-12 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-12 Financial Reporting

Observation – During the audit, we identified two transfers made to the Library that were recorded in the general ledger as Materials and Supplies Expense. There was also one instance in the Electric Fund where a fuel tax refund was recorded as a transfer in, and one instance in both the Emergency and Employee Benefit Funds where property tax receipts were posted as interest income.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash disbursements are properly identified and recorded in the financial statements.

Response – The City will double check disbursements in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Part II – Findings Related to the Financial Statements (Continued):

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III – Other Findings Related to Statutory Reporting

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-12 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-12 Business Transactions – There were no business transactions between the City and City officials or employees noted.

III-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-H-12 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-12 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Part III – Other Findings Related to Statutory Reporting – (Continued)

III-J-12 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$168,643, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at the current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.